fluenced an a priori answer is not possible. It all depends on the industrial situation.

If the foregoing be correct, Arbuthnot's objections fall. But Fisher's plan would then be subject to attack on the following grounds: (a) Production rather than price statistics should determine the need for a change in the volume of dollars. (b) Because of the all importance of bank credit in our media of exchange Fisher's efforts should be confined to endeavors to influence the policy of our bankers and particularly the Federal Reserve Board rather than to attempt the more difficult and less promising task of securing the assent of a far larger number of minds to what appears to be a radical change in our monetary system.

In regard to the first we must recall that Fisher would adjust the volume of the circulating media as prices rise or fall. Suppose, as is undoubtedly frequently the situation, that production increases cannot be effected without easier credit which if granted may bring about some rise in prices. In this situation should we not take the position that price stability is primarily a consideration of distributive justice and should be subordinated to the requirements of rendering as large as possible the total volume of production? Should we not first of all adapt our credit policy to production needs and then consider the measures necessary for securing fair distribution?

In the second place, under certain favoring circumstances such as plentiful reserves, the banks could easily nullify any effect created by the change in the theoretical weight of the dollar. Unless our banking administration can be taught a different price theory than any they have thus far enunciated clearly the possibilities of a "stabilized dollar" are limited. But if bankers can be induced to limit their credit grants to the requirements of productive efficiency we need not worry about such matters as the invention of new processes for mining gold or the importation of gold from abroad. Despite great difficulties will it not be easier to educate our bankers, and having educated them to make use of existing machinery, than to attempt to convince the far larger class whose assent to the "stabilized dollar" would be necessary? At any rate it will not be necessary to argue for a change which will *appear* violently to alter our present monetary system.

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Integration in Marketing

In the September number of this REVIEW Mr. Lewis H. Haney analyzes the reasons for integration in marketing (which amounts to what is commonly referred to as elimination of middlemen) and attempts to answer the question whether the tendency in this direction is in the public benefit.[1] His general conclusion is that, although integration may be socially desirable within certain limits, there exists "no prima facie case for integration in marketing." Broadly speaking, the conclusions uphold the orthodox system of marketing, especially where the wholesale grocer is concerned, and appear to find little justification for such innovations as the chain store, mail-order house, coöperative buying exchanges, or direct sale from manufacturer to retailer.

[1] "Integration in Marketing," by Lewis H. Haney, AMERICAN ECONOMIC REVIEW, vol. X (Sept., 1920), p. 528.

He begins with the assumption that recent departures from the "old smooth channel" through the wholesaler result in "a most unfortunate and wasteful amount of duplication and friction"; and seems to think that the traditional method should be left undisturbed rather than that we run the risk of making progress by trying to find new and better methods of marketing. His principal object is apparently to justify the wholesale grocer as against other marketing agencies; and the unfounded criticisms against the packing industry which have resulted impel the present writer to point out some of the mistakes in Mr. Haney's article.

Before taking up these points, however, it may be well to name two or three serious defects in Mr. Haney's argument. He enumerates eight "economic forces tending to integration in marketing." He has omitted what is perhaps the most important reason of all, and that is the perishability of products.[2] This is the main reason why the packing industry has to "do its own jobbing" and why it cannot rely on outside dealers. The president of the National Biscuit Company told me in person that the products of the National Biscuit Company too often got stale in the hands of the wholesale grocers and did not reach retailers in the best condition, and that this was the principal reason why his company had been forced to sell direct to retailers. Also the marketing of cheese has been taken over largely by the meat packer because the wholesale grocer did not have the facilities for handling this perishable product efficiently.

Another very serious error appears on page 540, where Mr. Haney attempts to prove that the cost of marketing groceries through the mail-order house is very similar to the cost of marketing through the wholesale and retail grocer. He has overlooked the fundamental fact that the different departments of a mail-order house have different costs of doing business. If the expense of the entire business of a mail-order house is approximately 22 per cent, the expenses of the grocery department would be considerably less than that—probably not more than 15 or 16 per cent.[3] This would show a decided advantage for the mail-order house as compared with the jobber-retailer route, and Mr. Haney's comparison is obviously unsound.

One other merchandising fallacy is apparent when Mr. Haney decries the "inequality in margins of profit" on different items handled by wholesalers and retailers. There is room for argument on this point in so far as the inequality in margins results from the pushing of "leaders," but to complain of the customary variation in margins as "not a healthful condition" completely ignores the reason for the low margin on sugar, for example, as compared with the high margin on imported delicacies and perishable products. The point is that the cost of doing business varies for different individual articles, according to the rapidity of turnover of these individual articles, and the amount of salesmanship necessary in their sale.[4] If this

2 It might be argued that this question of perishability is covered in paragraph 6, where "special service" is given as one of the reasons for integration. Mr. Haney, however, apparently did not have this in mind, because he gave as examples "such machinery as typewriters and phonographs" (p. 531). If he did have perishability in mind, he certainly should have mentioned it.

3 The writer has been informed by an official of one of the large Chicago mail-order houses that the expenses of the grocery department are substantially less than the cost of operating the whole business.

4 See my article entitled "The Right Selling Price," *System*, May, 1918.

inequality appears to be increased by the operation of chain stores, department stores, mail-order houses, etc., as Mr. Haney claims is the case, this merely means that in these forms of marketing agencies there is a better adjustment of margins on individual products to actual merchandising costs—something to be encouraged rather than discouraged.

Taking up the specific references to the packing industry, we find that one of the principal reasons given for the tendency toward integration is the concentration of manufacturing in the hands of a few large producers. With this general proposition we cannot disagree, but in developing his thought Mr. Haney says that this tendency may be due to the possession of "large surplus earnings," especially when there is a desire to "insure a stable outlet" or to "maintain prices to the consumer"; or that the tendency may also arise from a desire to introduce "some new and expensive method of marketing." "All of these conditions," he says, "may be found in the expansion of the large meat packers and oil refiners into the marketing field" (page 529).

One might infer from this discussion that the packers had extended their marketing functions in order to find some means of disposing of surplus earnings for which they could find no other use. This is an idea advanced by the Federal Trade Commission in its report and by opponents of the packing industry that have appeared before congressional committees in Washington.. It is a sensational suggestion utterly without foundation. In so far as the packers have had "surplus earnings" to reinvest in their businesses, they have been governed entirely by the economic need of extending facilities and developing means for financing operations; they have not had to cast about to find some way to invest such earnings and absolutely no evidence has been produced to show that such is the case. As for a desire to insure a "suitable outlet," this is true of the packing industry and accounts for one reason why it has been found necessary to market through their own branch selling houses rather than through outside dealers. As for the desire to "maintain prices" to the consumer, this has not been a factor with the packing industry. No attempt at price maintenance has been made or would be feasible with reference to the great bulk of products distributed by the packers, because these products are perishable, they are sold in bulk, they are of varying grades and qualities, and most of them (such as beef) cannot be sold to the consumer under the packer's label. There are a few advertised specialties, such as soap, on which attempts to have retailers maintain prices—a practice very common in other industries—may have been made; but this has been of no significance whatever in the packing industry.

As for the "need of introducing some new and expensive method of marketing," Mr. Haney has adopted a wording which creates a wrong impression. The large packers had to establish their own wholesale selling outlets in Eastern markets just as soon as they began preparing dressed meats in the Middle West. This method was "new" at the time, but it has never appeared to be an expensive method of marketing as compared with the cost of marketing by other means.

On this same point it is said that this centralization of marketing tends to increase the field of monopoly, eliminate competition among independent wholesalers, increase the average spread between the factory price and retail price, and results in "economic waste through the encouragement of overgrown manufacturing units and excessive advertising campaigns." The

meat packers are cited as an example. In making this point Mr. Haney follows the time-worn assumption that there is a monopoly in the packing industry; he assumes that the doing away with "independent wholesalers" tends toward monopoly and increases the spread between factory price and the retailer. Neither of these assumptions is or can be borne out by positive evidence. As for "economic waste" resulting from "overgrown manufacturing units," Mr. Haney again makes an assumption that cannot be proved. The company which the writer represents has twenty-five manufacturing plants in the United States, distributed according to location of livestock producing sections, consuming centers, and also with respect to the proper size of manufacturing units.

This brings us to the question of "excessive advertising campaigns." Mr. Haney's remarks (pp. 530, 532) are suggestive of the views of many laymen and of many economists. Where would he draw the line between reasonable and excessive advertising? Surely not by adopting an absolute figure; he would consider the relation between advertising expenditure and total sales. The writer made a study of advertising expenditures of various concerns while he was in academic work, and found that the average advertising expenditure for a large number of advertising manufacturers amounted to something over five per cent of their sales.[5] Swift and Company, one of the largest advertisers in the country, spent in 1919 less than one fourth of one per cent of its sales, including both product and institutional advertising. Who shall say that this money was not well spent? Advertising is merely an economical way of selling, just as the use of a machine is an economical method of fabricating products. The public pays less for the service performed than it would pay if some other method of distribution of fabrication were used. Even institutional advertising could be defended on the ground of economy, at least economy in the long run. Wilful misrepresentation of an industry, with the resulting prejudice that is built up in the minds of many people, results in an ill will (instead of a good will). Such an ill will makes it harder to sell products, makes it easy for federal and state governments to pass harmful and uneconomic laws, and threatens the very stability of the business. If advertising designed to overcome such ill will should fail of its purpose, then it would have been wasted; if it succeeds, the benefits both to the corporation and to the public cannot be measured in dollars and cents.

Mr. Haney points out that the packers' marketing organizations duplicate, step by step, the regular distributive system. This is of course true, in that the same functions have to be performed whether under one ownership or a succession of different ownerships. But Mr. Haney's statement that the "packers' method tends to be less economical than the regular method because of the dependence upon the hired man, and because of the enormous overhead," is not based on the facts in the case. Consider the packer, for example, and the wholesale grocer. Although not directly comparable, the cost of doing business through the packer's branch house is less than 4 per cent of sales; the cost of doing business through the wholesale grocer is from 7 or 8 to 10 per cent of sales. Even the Federal Trade Commission admits that the advantage is with the packer in this respect.[6]

[5] See "The Economics of Advertising," *Printers' Ink*, July 11, 1918.

[6] See *Report of the Federal Trade Commission on The Meat Packing Industry*, part IV, pp. 49 to 53. After pointing out the difficulties of making an exact com-

The packer's whole expense and profit for manufacturing and selling animal products and by-products is about 15 per cent of sales, and this includes buying of animals, slaughtering, paying freight to distant markets, operating branch selling houses with refrigeration facilities, the paying of salesmen, accounting forces, etc., and the cost of delivery to retailers. Compare this with the wholesale grocer's margin of about 11 or 12 per cent, which covers nothing but the merchandising function (although in some cases there is a little incidental manufacturing). This is not a reflection on the efficiency of wholesale grocers, whose business is very different from that of the packers. But is there any method whereby the services that the packers perform can be accomplished at any lower expense than under the present organization?

Mr. Haney attempts to clinch his argument against the large-scale, integrated marketing system of the packer by saying that many small packers thrive without any such marketing organization. It seems curious that this point should be raised when Mr. Haney has every reason to know that the large packers and the small packers are not comparable. This was explained by the writer at the meeting of the American Economic Association in December, 1919. The small packer does a local business; he cannot possibly market efficiently (especially fresh meats) in distant markets. The large packer is absolutely essential to market the surplus livestock products of the West in the large consuming centers of the East. The marketing organization of the large packer, therefore, is based on absolute necessity and is not at all comparable with that of the small packer.

This same failure to recognize lack of comparability between large and small units, because of the differences in services performed, is evident in the conclusion (p. 545) that large-scale operations in the wholesale grocery trade are not based upon economic efficiency. The large-scale wholesaler cannot be compared with the small local jobber for the reason that he performs a different and more important service. For example, he usually develops a line of standardized canned goods under his own label—an important service which the small local jobber cannot hope to perform.

Finally, the writer cannot help protesting against Mr. Haney's vague use of relative terms. His expression "excessive advertising" is anything but enlightening, and only tends to confuse the mind on an important economic problem on which there should be clear thinking. His references to "public benefit" and to "wasteful" methods of competition, etc., also indicate a cloudy state of mind, and only tend to inflame certain economic prejudices and suspicions, without advancing positive evidence, and without proceeding from a basis of sound definition. The same vagueness is apparent in the last three or four pages of conclusions, and in spite of a few positive statements, the reader really wonders just how far Mr. Haney would go in defending the wholesale grocer as against such developments as the chain store and the mail-order house, or just when he thinks that "public benefit" results from integrated marketing.

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parison, and qualifying its conclusion by saying that greater efficiency in handling non-meat products is not established, the Federal Trade Commission says: "After all allowances are made, however, the facts if fully known might well show that on the average a given volume of sales can be made at less expense by the packer than by the wholesale grocer (p. 52)."